



Investment Office

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May 24, 2006

Ms. Nancy M. Morris

Secretary

Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549-1090

RE: Self-Regulatory Organizations; Demutualization of the National Stock Exchange [Release No. 34-53721; File No. SR-NSX-2006-03]

Dear Ms. Morris:

The California Public Employees' Retirement System (CalPERS) is the largest U.S. public pension fund with over \$200 billion in total assets. CalPERS is a long-term shareowner and believes in the importance of strong market regulation and enforcement designed to protect investors and ensure integrity in the capital markets.

CalPERS is pleased to provide comment on the National Stock Exchange (NSX) proposal to change its corporate structure to allow for demutualization while continuing to have self-regulatory responsibilities over its members. As an investor, we are encouraged that the proposal for adopting a for-profit approach takes a view toward optimizing volume, efficiency, and liquidity in the capital markets to better meet the demands of, and provide value to, investors.

However, as an investor, we believe that of equal importance to meeting the needs of the investment community is the need to make certain that a regulatory structure be in place to ensure the integrity of the U.S. equities markets. A key component to ensuring this integrity is instilling confidence that adequate investor protections are in place.

The U.S. capital markets cannot afford to incur an erosion of investor confidence. Recent failures, such as those exemplified at the NYSE, to adequately oversee specialists, enforce rules and maintain up-to-date listing standards have harmed investors and provide evidence that the self-regulatory model is in need of reform. We strongly believe that these breakdowns are the result of the current inadequate model of exchange self-regulation. Therefore, we continue to believe that a complete separation of regulatory and business exchange functions should be the ultimate capital market exchange framework.

Complete separation of regulatory and business exchange functions will significantly remove conflicts-of-interest that could occur when a for-profit exchange serves as both a market and a regulator. We believe regulatory oversight of the NSX by the Securities and Exchange Commission (SEC) should increase significantly in order to ensure that adequate rules and other safeguards are in place to protect investors.

CalPERS therefore recommends an enterprise model that has complete separation between the regulatory and non-regulatory function for the NSX. We would prefer to see the enterprise model for the Public Company Accounting Oversight Board used as a template for the regulatory function of exchanges in the U.S. – including the NSX.

In the event that NSX does not move forward with complete separation of its regulatory and non-regulatory functions, at a minimum CalPERS proposes the following:

- 1) The SEC and NSX Holdings, Inc. monitor for 18 months the effectiveness of the self-regulatory responsibilities that NSX will have over its members.
- 2) The SEC and NSX Holdings, Inc. present publicly at the end of 18 months an analysis that would illustrate the effectiveness of the self-regulatory responsibilities that NSX will have over its members post-demutualization.
- 3) The SEC and NSX Holdings, Inc. remain open for an investor engagement to strengthen the effectiveness of the self-regulatory responsibilities that NSX will have over its members if the analysis indicates such steps are needed.

We appreciate the opportunity to express our concerns and interest with the Securities and Exchange Commission. Please contact Dennis Johnson, Senior Portfolio Manager – Corporate Governance at (916) 795-2731 if there are questions.

Regards,



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Senior Investment Officer, Global Equity

Cc: Fred Buenrostro, Chief Executive Officer
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